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TO RUEHC/SECSTATE WASHDC IMMEDIATE 7352
INFO RUCNCIS/CIS COLLECTIVE 2427
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RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1787
RUEHKO/AMEMBASSY TOKYO 2493
RUEHUL/AMEMBASSY SEOUL 1403
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 1984
RUEKJCS/SECDEF WASHDC 1832
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SENSITIVE
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SUBJECT: KAZAKHSTAN: STATE TO REGULATE FUEL PRICES

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Since independence, the government has attempted to manage gasoline prices through various means, including direct ownership of Kazakhstan's three refineries, crude export duties, bulk procurement, and state contracts that guarantee crude supplies to refineries. The Ministry of Energy is preparing legislation on the regulation of fuel prices that will toughen rules for wholesalers. Kazakhstan's decision to enter into a Customs Union with Russia and Belarus will likely bring gasoline prices in Kazakhstan closer to those in Russia. END SUMMARY.

COMPETITION PROTECTION AGENCY INVESTIGATES RETAILERS

13. (SBU) In November 2009, Kazakhstan experienced a shortage of gasoline and other fuels, followed by an abrupt rise in prices. The Competition Protection Agency (CPA) accused distributors of fuels and lubricants affiliated with KazMunaiGas (KMG), PetroKazakhstan, and PetroKazakhstan Petroleum Resources of engaging in illegal trade practices. The CPA also charged a number of companies with administrative violations, including KMG subsidiary KMG Onimderi, which allegedly sold fuel at retail prices under an unsanctioned coupon program.

KAZAKHSTAN DEPENDENT ON RUSSIAN FUEL IMPORTS

14. (SBU) On October 8, 2009, Minister of Energy and Mineral Resources (MEMR) Sauat Mynbayev announced that "40% of the jet fuel and 30% of the high-octane gasoline on the domestic market are imported from Russia." He said the government has two goals: to keep gas prices steady and to satisfy market demand for gasoline, jet fuel and other petroleum products. Mynbayev admitted that these goals can sometimes be at odds, since the price of fuel in Russia is as much as 40% higher than in Kazakhstan, and Kazakhstani suppliers naturally prefer to export petroleum products to Russia. Mynbayev therefore proposed protecting the domestic market by restricting the price differential to less than 30%. On November 16, 2009, he suggested adjusting the ratio of high-octane gasoline imports, and reducing imports of fuel oil and low-octane gasoline. In order to

increase administrative control over domestically-produced gasoline, MEMR now approves gasoline supply schedules in the regions, using an on-line database to monitor shipments.

STATE TO ADOPT FUEL PRICE REGULATION LAW

15. (SBU) On January 21, CPA Deputy Chairman Boris Parsegov announced that MEMR is drafting a law on the regulation of fuel prices that is expected to be submitted to parliament in March. "The rules for wholesalers will be toughened," said Parsegov. "That means that no organization can act as a wholesaler if it does not have the necessary infrastructure, such as oil storage facilities and access roads," Parsegov explained.

INFLUENCE OF THE CUSTOMS UNION ON FUEL PRICES

16. (SBU) On November 17, 2009, Mynbayev said Kazakhstan must coordinate its fuel and lubricants prices with Russia once the Customs Union goes into effect. "Since the borders will be open, the transportation of goods will be greatly simplified. We will inevitably have correlated prices for oil products, whether we like it or not," he said. "Even if the prices will not be exactly the same, they will still fluctuate within a certain range and influence each other. This is an unavoidable result of establishing the Customs Union," he concluded.

17. (SBU) COMMENT: The government is always under pressure to manage domestic fuel prices, particularly during harvest season. On February 3, for example, Minister of Agriculture Akylbek Kurishbayev told the Senate that the state would purchase 336,000 tons of fuel at a fixed price for spring sowing and harvesting. A new law to regulate fuel prices is therefore not unexpected. It would have to take into account the new Customs Code that goes into effect on July 1, and could lead to closer alignment of fuel prices in Kazakhstan, Russia and Belarus. However, unless Kazakhstan modernizes its three

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refineries so that they can produce high-octane petroleum products to meet domestic demand, Kazakhstan will not be able to break its dependence on high-octane fuel products from Russia. END COMMENT.

SPRATLEN